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SUBJECT: AMBASSADOR REVIEWS ECONOMIC THEMES WITH NOBEL PRIZE WINNER
AND CENTRAL BANK PRESIDENT

¶1. (SBU) SUMMARY: The Ambassador hosted Dr. Robert Solow -- 1987 Economics Nobel Prize winner -- and Central Bank President Jose De Gregorio at the residence on January 8 to discuss economic issues in Chile. The conversation focused largely on the distinctive elements that make Chile and its economy and labor market so different from those in the region. Dr. Solow, who visited Chile to participate in a GOC-hosted seminar on "Labor and Equity," is impressed with the country's focus on problem areas and the quality and seriousness of his Chilean interlocutors. Dr. Solow noted that he would be consulting Harvard and MIT economists on a specific question posed to him by Finance Minister Andres Velasco the previous day about collective bargaining. End Summary.

¶2. (SBU) The Ambassador invited Economics Nobel Prize recipient Dr. Robert Solow to the residence on January 8, taking advantage of his presence in Chile for a seminar hosted by the GOC Presidential Advisory Board on Labor and Equity. Chile's new Central Bank President Jose De Gregorio (appointed in December 2007) also participated in the discussion. He is a former student of Dr. Solow and earned a PhD in economics from MIT.

Need for Labor Flexibility

¶3. (SBU) Both Dr. Solow and the Central Bank President agreed that Chile needed a more flexible labor market to advance the country further. Instead of seeking only to secure existing jobs, labor unions needed to focus more attention on the creation of new jobs and industries with higher incomes, noted the retired MIT professor. Working with the private sector, labor should seek the production of value added products (e.g., production of furniture with Chilean wood or cables with Chilean copper) that would generate better salaries.

¶4. (SBU) De Gregorio said there is a tendency of some in government to look toward European labor standards. He warned that the tax burden is already high in Chile and citizens do not receive benefits from those taxes, as in Europe. To best help its workers, Chile needed to generate higher incomes, he said. Dr. Solow indicated that with changing technologies, workers change jobs more frequently, unlike in the past, and need to be adaptable and well-educated. Both the professor and Bank President agreed that severance payments are a disincentive for businesses in Chile to hire new workers and foster new industries.

¶5. (SBU) De Gregorio said that Chilean students are increasingly more skilled utilizing new technologies. As an example, he noted students were surprisingly organized during demonstrations against the Bachelet government in its first month in office. The students coordinated blockades and warned each other of arriving security forces by using text messages. De Gregorio contrasted his

experience as a student protesting against the Pinochet regime, when organizing students with limited means of communication and information was a problem.

Sub-Contracting Dilemma

16. (SBU) The Ambassador raised the dispute over subcontracting at CODELCO, the world's largest copper company, noting that the issue has become a top labor concern for the Bachelet administration. De Gregorio said much of the problem stems from the differentiated treatment of the firm's permanent employees and its temporary

contract workers. The Central Bank President indicated that some contract workers perform the same duties as the permanent ones, but receive different benefits. The problem is not easily resolved.

Why is Chile different?

17. (SBU) Dr. Solow stated he had been impressed with Chile and the seriousness and desire of his Chilean interlocutors to solve problems. Noting that Chile is implementing sound economic policies, the retired MIT professor wondered what made Chile so different from other countries in the hemisphere. De Gregorio explained that Chile has always had strong institutions, even under the military dictatorship of General Pinochet. The country had largely refrained from populism, with the exception of the disastrous Allende administration. He theorized that corruption had been held in check in Chile, unlike in other Latin American countries, because of its strong institutions. He noted, for example, that Argentina has yet to recover from Peron's reign, which had largely disintegrated the country's institutions.

Consulting Academia

18. (SBU) Dr. Solow said he met the previous day with Finance

Minister Andres Velasco, whom he described as exceptional. One topic raised by Velasco concerned the optimal size for negotiations between management and workers of a firm. In a Chilean company there can be as many as 100 separate categories (e.g. cashiers, shelf stackers, and janitors in a grocery store all negotiate separately with management). The Finance Minister explained his team found no academic studies on the optimal size for inter-firm negotiations in collective bargaining. Dr. Solow said he promised to consult Harvard and MIT economists on the subject and for any relevant research. De Gregorio commented that Velasco does an excellent job linking what is relevant in academia with the political side of operating a government.

MIT Mafia in Chile

19. (U) The Central Bank President noted that there are many MIT graduates working Chile, but they are not as well known as the University of Chicago "Boys." After 45 years at MIT, the retired professor said there are several former students in influential government positions in different countries, including three or four Chileans who later became Central Bank Board Members. He indicated he is always pleased to see former students playing important roles in society.

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